



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
CENTRAL KENTUCKY EDUCATION COOPERATIVE**

Fiscal Year Ended June 30, 2000

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Donald W. Pace, Executive Director
Central Kentucky Education Cooperative
Board of Directors of the Central Kentucky Education Cooperative

The enclosed report prepared by Charles T. Mitchell Company, LLP, Certified Public Accountants, presents the financial statements of the Central Kentucky Education Cooperative, Lexington, Kentucky, as of June 30, 2000.

We engaged Charles T. Mitchell Company, LLP, to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Charles T. Mitchell Company, LLP, evaluated the Central Kentucky Education Cooperative's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure

CENTRAL KENTUCKY EDUCATION COOPERATIVE

AUDIT REPORT

JUNE 30, 2000

EXECUTIVE SUMMARY

CENTRAL KENTUCKY EDUCATION COOPERATIVE Fiscal Year Ended June 30, 2000

An audit of the Central Kentucky Education Cooperative for fiscal year ended June 30, 2000 has been completed. No reportable conditions relating to the financial statement were disclosed.

The management letter disclosed the following area of noncompliance:

The Central Kentucky Education Cooperative should require depository institutions to pledge or provide sufficient collateral to protect deposits in accordance with KRS 66.480(1)(d) and KRS 41.240(4). On June 29, 2000, \$322,163 of the Cooperative's deposits in depository institutions were uninsured and unsecured.

The Notes To The Financial Statements included the following:

During the fiscal year, the Cooperative had uninsured cash balances with its financial institution. The cash balance is insured by the Federal Deposit Insurance Corporation up to \$100,000 for each separate account. The highest amount of uninsured balances occurred on June 29, 2000. The amount uninsured totaled \$322,163.

Our management letter, included in the audit report, communicates our recommendations to the Cooperative on improving management's policies and procedures.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
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Independent Auditor's Report

Central Kentucky Education Cooperative
Members of the Board
Lexington, Kentucky

We have audited the accompanying general-purpose financial statements of the Central Kentucky Educational Cooperative as of June 30, 2000 and for the year then ended, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the general purpose financial statements present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2000 and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated November 8, 2000 on our consideration of Central Kentucky Educational Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of federal financial assistance contained on page 9 is presented for purposes of analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Charles F. Mitchell Co.

November 8, 2000

CENTRAL KENTUCKY EDUCATION COOPERATIVE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	GOVERNMENTAL FUND TYPE		
	GENERAL FUNDS	SPECIAL REVENUE FUNDS	TOTALS (MEMORANDUM ONLY)
ASSETS AND RESOURCES:			
Cash and cash equivalents	\$ 296,300	\$ 87,204	\$ 383,504
TOTAL ASSETS AND RESOURCES	<u>\$ 296,300</u>	<u>\$ 87,204</u>	<u>\$ 383,504</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES			
Accounts payable		8,482	8,482
Deferred revenue	\$	\$ 78,722	\$ 78,722
TOTAL LIABILITIES	\$ 0	\$ 87,204	\$ 87,204
FUND BALANCES			
Unreserved	\$ 296,300	\$	\$ 296,300
TOTAL FUND BALANCES	<u>\$ 296,300</u>	<u>\$ 0</u>	<u>\$ 296,300</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 296,300</u>	<u>\$ 87,204</u>	<u>\$ 383,504</u>

See accompanying Notes

CENTRAL KENTUCKY EDUCATION COOPERATIVE
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000

	GOVERNMENTAL FUND TYPE		
	General Fund	Special Revenue (Grant) Funds	Totals (Memorandum Only)
REVENUES			
From Local Sources:			
Membership Dues	\$ 138,378	\$	\$ 138,378
Program Services	19,620		19,620
Contributions	6,500		6,500
Professional Development	47,722		47,722
Earnings on Investments	5,710		5,710
Other Revenues	30,529		30,529
Intergovernmental - Federal		529,128	529,128
TOTAL REVENUES	\$ 248,459	\$ 529,128	\$ 777,587
EXPENDITURES			
Salaries	\$ 60,214	\$ 209,798	\$ 270,012
Payroll Taxes	4,303	3,469	7,772
Retirement	3,377	18,396	21,773
Contracts		95,498	95,498
Contractual Services	5,150	7,662	12,812
Professional Consultants	20,492	41,352	61,844
Administrative Supplies		17,710	17,710
Instructional Travel		58,786	58,786
Advertising	2,606	567	3,173
Telephone	9,075	665	9,740
Printing & Publishing	2,703	6,109	8,812
Office Supplies	19,959	1,234	21,193
Office Furniture		8,210	8,210
Computers		21,190	21,190
Other	8,498	25,230	33,728
Office Equipment	1,408	13,252	14,660
Contract Labor	24,000		24,000
Insurance	5,933		5,933
Meeting Expenses	11,611		11,611
Travel	11,213		11,213
Repairs & Maintenance	4,659		4,659
Postage	247		247
Dues & Subscriptions	1,872		1,872
TOTAL EXPENDITURES	\$ 197,320	\$ 529,128	\$ 726,448
Excess of Revenues over Expenditures	\$ 51,139	\$	\$ 51,139
Fund Balance, July 1, 1999	245,161		245,161
Fund Balance, June 30, 2000	\$ 296,300	\$	\$ 296,300

See accompanying Notes

GENERAL FUND			
	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUES:			
From local sources:			
Membership Dues	\$ 125,225	\$ 138,378	\$ 13,153
Program Services		19,620	19,620
Contributions		6,500	6,500
Professional Development		47,722	47,722
Earnings on Investments	2,500	5,710	3,210
Other Revenues	20,782	30,529	9,747
Intergovernmental - Federal			
TOTAL REVENUES	\$ 148,507	\$ 248,459	\$ 99,952
EXPENDITURES:			
Current:			
Salaries	\$ 69,101	\$ 60,214	\$ 8,887
Substitutes			
Stipends			
Payroll Taxes	5,286	4,303	983
Retirement	4,000	3,377	623
Employee Benefits	1,959		1,959
Contracts			
Audit			
Contractual Services		5,150	(5,150)
Professional Consultants		20,492	(20,492)
Administrative Supplies			
Instructional Travel			
Advertising	1,500	2,606	(1,106)
Telephone	5,200	9,075	(3,875)
Printing & Publishing	8,000	2,703	5,297
Professional Fees	3,000		3,000
Professional Registrations	350		350
Office Supplies	2,000	19,959	(17,959)
Office Furniture			
Computers			
Other	29,731	8,498	21,233
Office Equipment		1,408	(1,408)
Contract Labor	24,000	24,000	
Insurance	5,000	5,933	(933)
Meeting Expenses	5,800	11,611	(5,811)
Travel	5,000	11,213	(6,213)
Repairs & Maintenance	3,000	4,659	(1,659)
Postage	4,000	247	3,753
Warehouse	4,000		4,000
Dues & Subscriptions	500	1,872	(1,372)
TOTAL EXPENDITURES	\$ 181,427	\$ 197,320	\$ (15,893)
Excess of revenues over expenditures	\$ (32,920)	\$ 51,139	\$ 84,059

See accompanying Notes

CENTRAL KENTUCKY EDUCATION COOPERATIVE
COMBINED STATEMENT OF REVENUES AND EXPENDITURES TO BUDGET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2000

<u>SPECIAL REVENUE FUND</u>		
<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
\$	\$	\$
<u>\$ 607,850</u>	<u>\$ 529,128</u>	<u>\$ (78,722)</u>
<u>\$ 607,850</u>	<u>\$ 529,128</u>	<u>\$ (78,722)</u>
217,322	209,798	7,524
11,200		11,200
6,500		6,500
6,830	3,469	3,361
21,802	18,396	3,406
150,000	95,498	54,502
1,000		1,000
25,000	7,662	17,338
34,000	41,352	(7,352)
3,836	17,710	(13,874)
12,000	58,786	(46,786)
1,500	567	933
10,000	665	9,335
8,000	6,109	1,891
1,000	1,234	(234)
10,000	8,210	1,790
26,500	21,190	5,310
31,360	25,230	6,130
30,000	13,252	16,748
<u>\$ 607,850</u>	<u>\$ 529,128</u>	<u>\$ 78,722</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Central Kentucky Educational Cooperative substantially comply with the rules prescribed by the Kentucky Department of Education for local school districts.

Reporting Entity

The Central Kentucky Educational Cooperative ("Cooperative") was organized by approximately twenty school districts in Central Kentucky. Its purpose is to identify common needs, plan conferences, develop district programs, implement workshops, facilitate large group purchasing for member districts, and other services as requested. The member school districts are required to pay annual contract fees for membership, in addition to other amounts on a cost sharing basis. The Cooperative also receives funding from federal and state government sources and must comply with the commitment requirements of these funding source entities. However, the Cooperative is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are comprised of the superintendents from each member district and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters. The Board hires a director to oversee the operations of the Cooperative.

Fund Accounting

The Cooperative maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts which stands separate from the activities reported in other funds. A description for each class of funds along with the associated restrictions follows:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the Cooperative. It accounts for financial resources used for general types of operations. This is a budgeted fund and any unrestricted fund balances are considered as resources available for use.
- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal and state financial programs where unused balances are returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

II. Account Group

A) General Fixed Assets Account Group

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The Cooperative does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained.

Basis of Accounting

The records of the Cooperative are maintained, and the budgetary process is based, on the modified accrual basis method of accounting. This practice is the accounting method prescribed by the Committee for School District Audits. Adjustments have been made to the general purpose financial statements for accounts receivable and payable to more properly reflect the fund balances of the various funds, in accordance with the modified accrual basis of accounting.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

The Cooperative considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less to be cash equivalents.

Total Columns

Total columns on the financial statements are indicated as "Memorandum Only," as data in these columns do not present financial positions, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Deferred Revenue

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and, accordingly, when such funds are recorded they are recorded as deferred revenue until earned.

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits are carried at cost. The carrying amount of deposits is separately displayed on the Combined Balance Sheet, as cash and cash equivalents - unreserved \$296,300 and reserved \$87,204.

Carrying Amount and
Depository's Balance

Total Cash and Cash Equivalents

\$430,151

NOTE 3 - RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System (KTRS). Funding for the plan is provided through payroll withholdings of 9.855% and matching State contributions. The matching contributions are paid by the Federal program for any salaries paid by that program.

The Cooperative's total payroll for the year was \$270,012. The Cooperative has a contribution requirement to KTRS and CERS of \$21,773 for certified and classified personnel. Benefits under the KTRS and CERS plan will vary based on final compensation, years of service and other factors as fully described in the plan document.

As the board is only one of several employers participating in the plan, it is not practical to determine the board's portion of the unfunded past service cost or the vested benefits of the board's portion of the plan assets.

NOTE 4 - CONTINGENCIES

The Cooperative receives funding from Federal agencies. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the Cooperative for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the Cooperative's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The Cooperative has not paid the Executive Director in accordance with the terms of his contract. The Cooperative may be responsible for taxes and penalties for not withholding payroll taxes from the Executive Director's salary.

NOTE 5 - INSURANCE AND RELATED ACTIVITIES

The Cooperative is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Cooperative has purchased certain policies which are retrospectively rated which includes worker's compensation insurance.

NOTE 6 - LITIGATION

Management has stated there is no pending or threatened litigation as of June 30, 2000.

NOTE 7 - RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To obtain insurance for workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Board Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operation and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Cooperative purchases unemployment insurance through the Kentucky School Board's Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8 - CONCENTRATIONS OF CREDIT RISK

During the fiscal year, the Cooperative had uninsured cash balances with its financial institution. The cash balance is insured by the Federal Deposit Insurance Corporation up to \$100,000 for each separate account. The highest amount of uninsured balances occurred on June 29, 2000. The amount uninsured totaled \$322,163.

CENTRAL KENTUCKY EDUCATION COOPERATIVE
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2000

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal <u>CFDA No.</u>	Pass - Through Grantor's <u>Number</u>	<u>Expenditures</u>
 <u>U.S. DEPT. OF EDUCATION</u>			
Passed Through State Dept. of Education			
IDEA, Basic Special Education	84.027	0581-99-02	\$ <u>529,128</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u>529,128</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Central Kentucky Education Cooperative
Members of the Board
Lexington, Kentucky

We have audited the financial statements of Central Kentucky Education Cooperative as of and for the year ended June 30, 2000 and have issued our report thereon dated November 8, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Central Kentucky Education Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Central Kentucky Education Cooperative's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting which we have reported to management of the Central Kentucky Education Cooperative in a separate letter dated November 8, 2000.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Charles F. Mitchell

November 8, 2000

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Central Kentucky Education Cooperative
Members of the Board
Lexington, Kentucky

Compliance

We have audited the compliance of the Central Kentucky Education Cooperative (a nonprofit organization) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. Central Kentucky Education Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Central Kentucky Education Cooperative's management. Our responsibility is to express an opinion on the Central Kentucky Education Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Central Kentucky Education Cooperative's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Central Kentucky Education Cooperative's compliance with those requirements.

In our opinion, the Central Kentucky Education Cooperative complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000.

Internal Control over Compliance

The management of the Central Kentucky Education Cooperative is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Central Kentucky Education Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Charles F. Mitchell

November 8, 2000

CENTRAL KENTUCKY EDUCATION COOPERATIVE
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2000

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued. Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	_____ yes	<u> X </u> no
Reportable condition(s) identified not considered to be material weakness(es)?	_____ yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ yes	<u> X </u> no
Reportable condition(s) identified not considered to be material weakness(es)?	_____ yes	<u> X </u> none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)?

_____ yes	<u> X </u> no
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Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
84.027	IDEA, Basic Special Education

Dollar threshold used to distinguish
between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS

None

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MANAGEMENT LETTER

Central Kentucky Education Cooperative
Lexington, Kentucky

We have examined the financial statements of Central Kentucky Education Cooperative for the year ended June 30, 2000 and have issued our report thereon dated November 8, 2000. As part of our examination, we made a study and evaluation of the Central Kentucky Education Cooperative's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Central Kentucky Education Cooperative's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Central Kentucky Education Cooperative is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the system to dispatch its duties.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Central Kentucky Education Cooperative taken as a whole. We noted no matters involving internal control over financial reporting and its operation that we considered to be material weaknesses.

However, during our audit, we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency.

1. The Governmental Accounting Standards Board (GASB), to which all governmental audits are subject, has consistently maintained that existing governmental financial statements are not meeting the needs of users. Consequently, GASB has issued Statement No.34 that they feel makes the financial statements of governmental units more user friendly. While the Statement makes many changes in the financial statements of governmental units, the area of capital assets is one of the most dramatic.

Capital assets are tangible physical assets, including rights to those assets, having useful lives of more than one reporting period. They include land, easements, buildings, improvements to land and buildings, vehicles, machinery, infrastructure and assets acquired under capital leases. Currently in governmental funds, the costs associated with the acquisition of capital leases are recorded as current period expenditures of the respective fund. While it has not been the practice of Kentucky School Districts, the same amount is normally recorded as an addition to general fixed assets in the General Fixed Assets Account Group.

Acknowledging that taxpayers provide substantial resources for general capital assets and that for many governments, those are the most significant assets, the new standard requires the capitalization of general capital assets and allocation of their cost to the periods benefited. What this means to the District is that the financial statements would include capital assets and would report depreciation expense as a charge to operations. This is a significant change and it does not just affect the future purchase of capital assets. It affects the capital assets currently held.

It is our recommendation that, in preparation of the implementation of the standard, the District establish an inventory of capital assets and a policy concerning the dollar value of items to be capitalized. It is anticipated that the standard will take effect for the year beginning 2002.

2. Payments to the Executive Director were not made in accordance with the terms of the contract. The contract was with the Executive Director individually, while payments were made to a corporate entity.

The Executive Director received a \$300 monthly travel allowance, in addition to reimbursement for actual travel expenses.

We recommend that future payments to the Executive Director be made in accordance with the contract, and that all compensation payments to the Executive Director be properly recorded.

3. Grant funds represented in the financial statements are not reconcilable with manual ledgers. It is our recommendation that Cooperative use grant expenditure classification according to grant code in compiling financial statements.
4. The Cooperative does not have a written policies and procedures manual. It is our recommendation that the Cooperative create a policies and procedures manual. This manual should incorporate the policies and procedures manual implemented by a member school district.
5. The Cooperative maintained cash balances in excess of the FDIC insured limit of 100,000 at certain times during the fiscal year.

We recommend that undue concentration of risk be avoided and excess funds be invested in accordance with strict investment policy.

We have enjoyed working with the management and staff of the Central Kentucky Education Cooperative and look forward to a continuing, mutually productive relationship. Please call us if you have any questions concerning this letter or if we can be of any other assistance.

Respectfully submitted:

Charles T. Mitchell Co.

Charles T. Mitchell Co.
November 8, 2000

RESPONSE TO MANAGEMENT LETTER

November 8, 2000

Mr. Ed Hatchett
Auditor of Public Accounts
Frankfort, KY 40601

Dear Mr. Hatchett,

This letter is to provide our response to the findings in the audit of the Central Kentucky Education Cooperative for the year ended June 30, 2000.

GASB No. 34

We appreciate our auditors keeping us apprised of developments in the area of finance and reporting. The Cooperative has worked with the auditors to create a schedule of assets which will be used to implement GASB No. 34. We anticipate no problem being ready to report the Cooperative's financial statements in accordance with GASB No. 34.

Executive Director's Salary

We will begin immediately to pay the salary according to the contract terms.

Grant Expenditures

The Cooperative has implemented account numbers which correspond to grant expenditure classification. This change enables our grant staff to reconcile grant receipts and grant expenditures according to their manual ledgers to the Cooperative's financial statements.

Policies and Procedures Manual

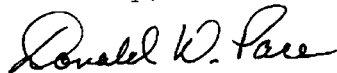
The Cooperative will begin work on a policy and procedures manual.

Uninsured Cash Balances

We will work with our financial institution to ensure our cash is insured beyond the FDIC limit.

I hope this provides appropriate response to the management letter comments. Should you have questions relative to these matters, please feel free to contact me.

Sincerely,



Donald Pace
Executive Director